



MULTI-LAKE WATER
AND SEWER AUTHORITY
(A COMPONENT UNIT OF DEXTER TOWNSHIP
WASHTENAW COUNTY)
81-7523

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2004

MULTI-LAKE WATER AND SEWER AUTHORITY

WATER & SEWER AUTHORITY BOARD

Chris Jones - Trustee
Michael Gross - Trustee
Deb Alvarez - Trustee
Dick McCloskey - Trustee
Maryann Noah - Chairperson
Steven Piatt - Secretary
David Steinbach - Vice-Chairperson
Jack West - Treasurer

WATER AND SEWER AUTHORITY ATTORNEY

Keusch & Flintoft

WATER AND SEWER AUTHORITY AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

TABLE OF CONTENTS

PAGE NUMBER

INDEPENDENT AUDITORS' REPORT

BALANCE SHEET

5

STATEMENT OF CHANGES IN FUND EQUITY

6

STATEMENT OF REVENUES AND EXPENSES

7

SCHEDULE OF OPERATING EXPENSES

8

STATEMENT OF CASH FLOWS

9

NOTES TO FINANCIAL STATEMENTS

11

PHP

PFEFFER • HANNIFORD • PALKA

Certified Public Accountants

John M. Pfeffer, C.P.A.
Patrick M. Hanniford, C.P.A.
Kenneth J. Palka, C.P.A.

Members:

AICPA Private Practice Companies Section
MACPA

225 E. Grand River - Suite 104
Brighton, Michigan 48116-1575

(810) 229-5550

FAX (810) 229-5578

July 6, 2004

Multi-Lake Water and Sewer Authority
12088 N. Territorial Road
Dexter, Michigan 48130

INDEPENDENT AUDITORS' REPORT

Honorable Authority Members:

We have audited the accompanying balance sheet of Multi-Lake Water and Sewer Authority, a component unit of Dexter Township, Washtenaw County as of March 31, 2004, and the related statements of changes in fund equity, revenues and expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Authority, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Multi-Lake Water and Sewer Authority as of March 31, 2004, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Pfeffer, Hanniford & Palka

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MULTI-LAKE WATER AND SEWER AUTHORITY
BALANCE SHEET
MARCH 31, 2004

ASSETS

CURRENT ASSETS

Cash - operations	\$ 235,118
Accounts receivable - sewer	223,314
Accounts receivable - other	8,480
Prepaid expenses	22,003
Inventory	<u>2,615</u>

Total current assets

\$ 491,530

RESTRICTED ASSETS

Cash - construction	648,001
Cash - capital replacement	398,540
Cash - agency	<u>12,682</u>

Total restricted assets

1,059,223

PROPERTY, PLANT AND EQUIPMENT

Land	123,000
Leasehold improvement	11,869
Sewer system	19,187,822
Equipment	<u>103,590</u>
	19,426,281
Less accumulated depreciation	<u>1,691,078</u>

Net property, plant and equipment

17,735,203

Total assets

\$ 19,285,956

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 13,783
Due to member townships	25,347
Due to others - escrow	<u>12,682</u>

Total current liabilities

\$ 51,812

FUND EQUITY

Retained earnings

19,234,144

Total liabilities and fund equity

\$ 19,285,956

The accompanying notes are an integral part of these financial statements

MULTI-LAKE WATER AND SEWER AUTHORITY
STATEMENT OF CHANGES IN FUND EQUITY
FOR THE YEAR ENDED MARCH 31, 2004

	<u>Retained Earnings</u>	<u>Total Fund Equity</u>
BALANCES, APRIL 1, 2003	\$ 18,440,477	\$ 18,440,477
ADDITIONS AND DEDUCTIONS		
Net income	<u>793,667</u>	<u>793,667</u>
BALANCES, MARCH 31, 2004	<u>\$ 19,234,144</u>	<u>\$ 19,234,144</u>

The accompanying notes are an integral part of these financial statements

MULTI-LAKE WATER AND SEWER AUTHORITY
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED MARCH 31, 2004

OPERATING REVENUES

Billings	\$ 565,371
Inspection and taps	220,984
Grinder pump sales	<u>63,840</u>

Total operating revenues

\$ 850,195

OPERATING EXPENSES

886,957

ADMINISTRATIVE EXPENSES

Bank charges	4,816
Insurance - general	28,401
Depreciation	1,345
Office expenses	2,467
Miscellaneous	4,483
Printing and postage	1,653
Authority per-diem fees	850
Payroll services fees	1,975
Accounting and audit fees	6,850
Legal fees	309
Miss-Dig and inspection fees	29,656
Salaries and wages	50,568
Retirement	3,981
Health insurance	1,952
Payroll taxes	<u>10,588</u>

Total administrative expenses

149,894

Total expenses

1,036,851

Operating (loss)

(186,656)

NON-OPERATING REVENUES (EXPENSES)

Interest income	3,637
Member debt transfers	(89,019)
County construction payments and reimbursements	1,033,679
Miscellaneous income	20,326
Rental income	<u>11,700</u>

Total other income

980,323

Net income

\$ 793,667

The accompanying notes are an integral part of these financial statements

MULTI-LAKE WATER AND SEWER AUTHORITY
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED MARCH 31, 2004

OPERATING EXPENSES

Contracted services	\$ 50,201
Operator salary and wages	87,842
Retirement	1,994
Insurance - health	17,972
Supplies	57,506
Repairs and maintenance - grounds and building	19,172
Utilities	46,756
Grinder pumps	88,459
Alarm services	360
Depreciation	374,168
Engineering fees	4,714
Telephone	13,808
Billing charges	1,485
Mileage and reimbursements	728
Tap-in fees	<u>121,792</u>
Total operating expenses	<u>\$ 886,957</u>

**MULTI-LAKE WATER AND SEWER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2004**

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating (loss)		
Adjustments to reconcile operating (loss) to net cash from (used in) operating activities		
Depreciation	\$ 375,513	\$ (186,656)
Changes in assets and liabilities		
(Increase) in accounts receivable	(82,527)	
Decrease in inventory	33,544	
(Increase) in prepaid expenses	(5,958)	
Decrease in due from member townships	4,931	
(Decrease) in accounts payable	(5,145)	
Increase in due to member townships	11,361	
(Decrease) in due to others	<u>(20,677)</u>	
Total adjustments		<u>311,042</u>
Net cash from operating activities		124,386
CASH FLOWS FROM (USED-IN) CAPITAL AND RELATED FINANCING ACTIVITIES		
Transfer to member townships	(89,019)	
Acquisition and construction of capital assets	<u>(1,302,519)</u>	
Net cash (used in) capital and related financing activities		(1,391,538)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	3,637	
Rental income	11,700	
County construction payments and reimbursements	1,033,679	
Other income	<u>20,326</u>	
Net cash from investing activities		<u>1,069,342</u>
Increase in cash		(197,810)
CASH AT APRIL 1, 2003		<u>1,492,151</u>
CASH AT MARCH 31, 2004		<u>\$1,294,341</u>

The accompanying notes are an integral part of these financial statements

NOTES
TO
FINANCIAL
STATEMENTS

**MULTI-LAKE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004**

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY

The Multi-Lake Water and Sewer Authority was incorporated on October 4, 1994, under Act No. 233, Public Acts of Michigan, 1955 as amended. The two incorporating municipal entities are Dexter and Lyndon Townships.

The purpose of the Authority is to acquire, own, improve, enlarge, extend, operate, maintain, manage and administer sewage disposal systems, water supply systems, or both.

The Authority Board is composed of four voting representatives from Dexter Township, two voting representatives from Lyndon Township, one voting member from Unadilla Township, and one voting member from Putnam Township. Each representative serves a term of four years. The two Townships also appoint an alternate representative or representatives who attend meetings in the absence of the representative appointed by the alternate's respective Township.

Based on criteria established by Government Accounting Standards Board (GASB) statement number 39, the entity is considered a component unit of Dexter Township.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Authority is considered an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. BASIS OF ACCOUNTING - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

MULTI-LAKE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

C. MANAGEMENT'S ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues during the reporting period. Actual results could differ from those estimates.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan

The investment policy adopted by the Authority is in accordance with Act 196 PA 1997. The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 224,046	\$ 224,046
Uninsured and uncollateralized	<u>1,070,295</u>	<u>932,680</u>
Total deposits	<u>\$1,294,341</u>	<u>\$1,156,726</u>

MULTI-LAKE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

A summary of changes in fixed assets and depreciation is as follows:

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Balance 3/31/04</u>
Sewer system	\$10,534,790	\$ 8,653,032	\$19,187,822
Equipment	39,208	64,382	103,590
Land	123,000		123,000
Land improvements	<u>11,869</u>		<u>11,869</u>
Total cost	10,708,867	8,717,414	19,426,281
Less accumulated depreciation	<u>1,315,565</u>	<u>375,513</u>	<u>1,691,078</u>
Net fixed assets	<u>\$ 9,393,302</u>	<u>\$ 8,341,901</u>	<u>\$17,735,203</u>

Depreciation for the sewer system, equipment, improvements and software paid by operating income is charged as an expense against their operations.

Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Sewer System	50 years
Equipment, Furniture and Software	5 - 10 years

MULTI-LAKE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

NOTE 5 - STATEMENT OF CASH FLOWS

Pursuant to Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year.

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The direct method was utilized to present cash flows from operations. The following is a summary of beginning and ending cash and cash equivalents:

	Beginning Balance <u>April 1, 2003</u>	Ending Balance <u>March 31, 2004</u>
Current Assets		
Cash and cash equivalents	\$ 177,223	\$ 235,118
Restricted Assets		
Cash and cash equivalents	<u>1,314,928</u>	<u>1,059,223</u>
	<u>\$ 1,492,151</u>	<u>\$ 1,294,341</u>

NOTE 6 - LEASE AGREEMENTS

The authority has two lease agreements with each of the following entities, Chelsea Fire Department and Dexter Fire Department. The lease agreements call for monthly rents of \$400 for Chelsea and Dexter Fire Departments each and their pro-rata share of all heat, water, gas, oil and other utilities. The lease agreements for the Chelsea Fire Department and Dexter Fire Department are for a period of two years.

MULTI-LAKE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

NOTE 7 - SEWER BILLINGS

The system currently has 1,259 users. Sewer users, with the exception of those in Gregory, are billed \$129.33 per quarter for service.

The quarterly charges are composed of the following:

Operation and maintenance	\$ 81.33
Reserve for debt service	21.00
Reserve for equipment replacement	<u>27.00</u>
Total	<u>\$ 129.33</u>

Users in Gregory are billed quarterly as follows:

Operation and maintenance	\$ 81.33
Debt	<u>8.64</u>
	<u>\$ 89.97</u>

NOTE 8 - SYSTEM EXPANSION - PROJECT UNCERTAINTIES

The County entered into a lease agreement dated October 1, 1994, with the Townships of Dexter and Lyndon, located in Washtenaw County (the "Townships"). The lease agreement totaled \$8,900,000, which represented the amount of bonds sold by the County to finance the Multi-Lake Sanitary Sewer System Project (the "System"). The Townships pay semi-annually to the County amounts sufficient to cover the debt service requirements, including agent fees and other related costs.

The Multi-Lake Water and Sewer Authority (the "Authority"), through a sublease with the Townships (who lease the project for the county), is required to operate, maintain, repair, insure and manage the system. Ownership of the system will be transferred to the Authority at no cost after the bonds have been paid in full.

The original lease agreement entered into between the County, the Authority and the Townships for the construction of the system and financing thereof indicated that Dexter Township would levy special assessments totaling approximately \$7.6 million. However, upon preparations and confirmation of its special assessments roll, Dexter Township actually levied approximately \$5.3 million. While a variety of factors appear to have contributed to this difference, there is concern by all parties to the contract as to Dexter Township's ability to satisfy its future lease payment obligations.

MULTI-LAKE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

NOTE 8 - SYSTEM EXPANSION - PROJECT UNCERTAINTIES - continued

Presently, management of the Washtenaw County Department of Public Works believes that remedies that are available to the County in the event Dexter Township is unable to satisfy its lease obligations are sufficient to provide the necessary funding to meet the County's debt service requirements for the bonds issued to finance this project. Accordingly, no fund liability has been recorded by the County for any contingencies relative to this matter.

The Authority and County currently have contracted with new customers outside the sewer service area to provide service.

NOTE 9 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the township. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 10 - ACCOUNTS RECEIVABLE

The Authority's billing periods are as follows:

April	through	June
July	through	September
October	through	December
January	through	March

Thus, accounts receivable includes both billed receivables through December 2002 and an estimate of the January through March 2004 billings. The following is a schedule of the Authority's accounts receivable:

<u>Estimated Unbilled</u>	<u>Current</u>	<u>Over 30 Days</u>	<u>Over 90 Days</u>	<u>Total</u>
<u>\$ 170,876</u>	<u>\$ 0</u>	<u>\$ 52,438</u>	<u>\$ 0</u>	<u>\$ 223,314</u>

NOTE 11 - INVENTORIES

Inventories of the water and sewer fund are valued at the lower cost or market. Cost is determined on the first in, first out basis. A physical inventory was taken at March 31, 2004. The authority's only inventory at March 31, 2004 was 1 grinder pump.

MULTI-LAKE WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

NOTE 12 - GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) - STATEMENT NO. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

For the first time the financial statements will include:

A Management Discussion and Analysis (MD&A) section providing an analysis of the Townships overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all of the Township's activities, including reporting infrastructure assets (roads, bridges, etc.).

A change in the fund financial statements to focus on the major funds.

The general provisions of GASB No. 34 must be implemented by the Multi-Lake Sewer and Water Authority no later than the fiscal year ending March 31, 2005.